

Annex A:

Example calculations

Example 1: Retirement in 2015/16

Pension before commutation £65,000 pa

Contingent spouse's pension £32,500 pa

Member's applicable LTA £1.25m

Lump sum taken £308,800

Pension after commutation £48,800 pa

Lump sum LTA charge

No LTA charge is due in respect of the lump sum because it is less than one-quarter of the LTA.

Pension LTA charge

The pension LTA charge can therefore be calculated as:

$$\begin{aligned} & 25\% \times (\text{HMRC value of ongoing pension} - \text{member's LTA in excess of} \\ & \quad \text{lump sum}) \\ & = 25\% \times (20 \times 48,800 - (1,250,000 - 308,800)) \\ & = 25\% \times 34,800 \\ & = £8,700 \end{aligned}$$

Example 2: Retirement in 2016/17

Pension before commutation £56,000 pa

Spouse pension £28,000 pa

Member's applicable LTA £1m

Lump sum taken £300,000

Pension after commutation £42,000 pa

Lump sum LTA charge

The lump sum LTA charge due in respect of the lump sum is 55% of its value in excess of one-quarter of the LTA:

$$\begin{aligned} & = 55\% \times (300,000 - \frac{1}{4} \times 1,000,000) \\ & = 55\% \times 50,000 \\ & = £27,500 \end{aligned}$$

Pension LTA charge

The pension LTA charge in respect of ongoing pension can therefore be calculated as

$$\begin{aligned} & 25\% \times (\text{HMRC value of ongoing pension} - \text{member's LTA in excess of} \\ & \quad \text{lump sum}) \\ & = 25\% \times (20 \times 42,000 - \frac{3}{4} \times 1,000,000) \\ & = 25\% \times 90,000 \\ & = £22,500 \end{aligned}$$

As the member has used up $\frac{1}{4}$ of their LTA from the lump sum, the LTA in excess of lump sum is capped at $\frac{3}{4}$ of the original LTA amount.

The total LTA charge is the sum of the charge in respect of the lump sum and the charge in respect of the ongoing pension:

$$\begin{aligned} & = 27,500 + 22,500 \\ & = £50,000 \end{aligned}$$